

## Summary

Global market sentiment continues to be highly erratic due to the uneasy co-existence of elevated asset prices in the HIDs (Heavily Indebted Developed Countries) at a time of evident weakness in some economic data releases. Over the past week, commodity prices bore the brunt of this mismatch by shifting lower, though stock markets around the world also shifted lower. Fixed income performed strongly. Looking ahead, the coming days are likely to be heavy with headlines from the G-20 Summit and World Bank/IMF meetings, but we expect few if any substantial announcements. The policy options available to the HIDs beyond currency manipulation are very limited. Despite the volatility of sentiment and asset prices, the fundamental global economic backdrop remains largely unchanged: Echoed in the latest IMF projections for global growth, the world remains sharply divided in structurally impaired and – in our view – over-priced HID markets, and less indebted, faster growing, and – in our view – better paying Emerging Markets.

## Global

Federal Reserve officials, including Bernanke, Yellen, and Dudley confirmed the Fed's commitment to easy monetary policy. This followed a week of somewhat mixed economic data, including weak retail sales (-0.4% versus 0.0% expected), soft University of Michigan Consumer Confidence, and weak housing permits. Housing starts were stronger than expected and industrial production was also stronger than expected. Earnings in the US have been mixed and earnings forecasts reduced. In Japan, the central bank indicated the intention to meet its 2% inflation target by 2015, while the US Treasury and G-20 urged Japan to avoid competitive devaluations (though without imposing any sanctions). In a quiet week for the region, uncertainty continued to surround peripheral European economies, including Portugal, Italy, and Cyprus, though the real vulnerability in Europe now lies with the banking system, in our view. One notable data point was the German business sentiment index ZEW, which declined in the past week. Given the recent run of weaker economic data in the HIDs in general, the on-going bear market in commodities continues with substantial declines in gold and oil prices over the past week. IMF lowered its global growth forecast, noting the huge differences in growth rates in the HIDs (1.9% in the US, -0.3% in Europe) and Emerging Markets (5.3%).

## Latin America

Nicholas Maduro's margin of victory in the presidential election in **Venezuela** was far narrower than expected. This underlines just how much power was vested in Hugo Chavez's person rather than his politics or his political associates. The close result triggered unrest, which left 7 people dead, but opposition leader Henrique Capriles asked supporters to avoid confrontation. **Brazilian** retail sales were softer than expected and producer prices rose less than expected, which allowed the central bank to only raise rates by 25bps, which was less than the market had priced in (50bps). **Chile's** central bank kept rates unchanged at 5.00% as expected. **Peru's** central bank also left rates unchanged at 4.25%, as expected. **Mexican** industrial production declined to a yoy pace of -1.2% versus 0.9% expected. The Colombian government unveiled a fiscal stimulus program.

## Asia

Tensions on the **Korean** peninsula showed signs of easing following intense diplomatic efforts involving **China** and the **United States**. The Bank of **Korea** left interest rates unchanged at 2.75% contrary to market expectations of a cut of 25bps. Bank of **Indonesia** also left rates unchanged at 5.75% as expected. Industrial production in **India** was stronger than expected at +0.6% versus -1.3% expected. Wholesale price inflation fell to 6% yoy in March, which was also lower than expected (6.3% yoy). **China's** first quarter GDP growth rate was softer than expected at 7.7% yoy, but the breakdown revealed healthy retail spending and somewhat softer than expected investment spending. This is precisely what we should expect in **China** as the country continues to make the challenging transition from export and investment driven growth to consumption led growth. In another important development, USDCNY fixed to a new post-crisis low of 6.2342 in the course of last week, while officials in **China** affirmed the commitment to gradual liberalisation of the capital account.

*Continued overleaf*

## Asia (continued)

Finally, Guangzhou had the strongest house price rise for two years. In the **Philippines**, both remittances and exports were softer than expected. In **Singapore**, Q1 growth was soft at -1.4%, but February retail sales staged a stronger bounce at 3.6% yoy versus -1.2% expected.

## Eastern Europe, Africa, and Middle East

**Hungarian** inflation surprised positively at only 2.2% versus 2.5% expected. The lower than expected reading is mainly due to cuts in administrated prices. **South African** industrial production softened to a -2.9% yoy pace versus +2.1% expected. **Turkey's** unemployment rate was 10.6%, which was lower than the 10.9% rate expected. The real exchange rate – a key central bank policy target – rose above 120 prompting the central bank to cut all policy rates by 0.5% (taking the lending rate to 7%, the 1-week repo policy rate to 5%, and the borrowing rate to 4%). At the same time, the central bank hiked reserve requirements on FX liabilities moderately by 20bps. Net net, this represented a marginal easing of policy. In **Ukraine**, officials geared up for another round of discussions about a new programme at the IMF/World Bank meetings in Washington due to take place next weekend. In **Israel**, March consumer price inflation moderated to 1.3% from 1.5% last month, while in **Poland** inflation declined to 1.0% from 1.3%. **Rwanda** announced the intention to tap global capital markets with a sovereign dollar bond.

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### Fund Prices

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